



# Advanced Taxation Module 9 November 2009`

## Suggested Solutions

### Question 1

	€	
Maria		
Cash	44,000	[1 Mark]
House	400,000	[1 Mark]

Mary		
House	110,000	[1 Mark]

Under threshold of €434,000 so no CAT due. Mary is surviving spouse and steps into Tom's shoes into Group A threshold. [1 Mark]

Bill

Bill is a minor child of a deceased child of the disponent and is under Group A. [1 Mark]

Therefore a threshold of €434,000 so no CAT due. [1 Mark]

Sam

There is no CAT on this inheritance as the money paid is to discharge Sam's medical expenses. [1 Mark]

Residue	€	
Share in AIB	26,000	[1 Mark]
Spanish House	210,000	[1 Mark]
Funeral expenses	(12,000)	[1 Mark]
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	224,000	[1 Mark]

Ben	112,000
Ava	112,000

Ava pays no CAT as she is under the threshold of €434,000. [1 Mark]

Ben		
Residue	112,000	[1 Mark]
Agricultural land	750,000	[1 Mark]

Is Ben a farmer?  
750,000  
 $750,000 + 112,000 + 200,000 = 71\%$  No [1 Mark]

Ben's CAT		
Land	750,000	[1 Mark]
Residue	112,000	[1 Mark]
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	862,000	[1 Mark]
€434,000 @ nil	0	[1 Mark]
€428,000 @ 25%	107,000	[1 Mark]

## Question 2

	€		€	
Profit before tax			445,000	<b>[1/2 Marks]</b>
Less: Rental income			(100,000)	<b>[1/2 Marks]</b>
Add: Disallowed items				
Depreciation	20,000	<b>[1 Mark]</b>		
Interest on loans	0	<b>[1 Mark]</b>		
Pension accrual	10,000	<b>[1 Mark]</b>		
Political donations	12,000	<b>[1 Mark]</b>		
Client entertainment	10,000	<b>[1 Mark]</b>		
Suppliers meals	4,000	<b>[1 Mark]</b>		
Trip to US (distribution)	7,000	<b>[1 Mark]</b>		
New kitchen extension	<u>5,000</u>	<b>[1 Mark]</b>	<u>68,000</u>	<b>[1/2 Marks]</b>
			413,000	
Corporation tax				
€413,000 x 12.5%			51,625	<b>[1/2 Marks]</b>
€100,000 x 25%			<u>25,000</u>	<b>[1/2 Marks]</b>
			76,625	<b>[1/2 Marks]</b>

Interest Limit		
Lower of		
13% x 100,000	13,000	<b>[1/2 Mark]</b>
Or		
13% x 50,000	6,500	<b>[1/2 Mark]</b>

All allowed as under limit so no distribution.

**[1½ Mark]**

Preliminary tax must be paid by 28 November 2009 of €68,963 and the balance of tax of €7,662 must be paid and the return filed by 28 September 2010.

**[1½ Mark]**

Distributable income		
Case V	100,000	<b>[1/2 Marks]</b>
Tax 25%	<u>25,000</u>	<b>[1/2 Marks]</b>
	75,000	<b>[1/2 Marks]</b>
7.5% Discount	<u>(5,625)</u>	<b>[1/2 Marks]</b>
(assume trading income)	69,375	<b>[1/2 Marks]</b>
Less: Distributions		
Us trip	<u>(7,000)</u>	
	62,375	<b>[1/2 Marks]</b>
Less: Minimum	<u>(635)</u>	<b>[1/2 Marks]</b>
	61,740	<b>[1 Mark]</b>

### Question 3

2007		
1/5/07 – 31/12/07		
€12,000 x 8/12	8,000	[1 Mark]
2008		
Original assessment	12,000	[1 Mark]
2009		
Original assessment	34,000	[1 Mark]
Actual 2008		
12,000 x 4/12 =	4,000	[1 Mark]
34,000 x 8/12 =	22,667	[1 Mark]
Total	<u>26,667</u>	
Computation of tax for 2009		
	€	
Sch D Case I	34,000	[1/2 Marks]
Pension	<u>(5,000)</u>	[1/2 Marks]
	29,000	[1/2 Marks]
Sch F Dividends 500/.8	625	[1/2 Marks]
Sch D Case IV 1200/.75	1,600	[1/2 Marks]
Sch E Salary	75,000	[1/2 Marks]
Gym membership	350	[1/2 Marks]
Benefit in kind loan (15% - 2%) 13% x 12,000	<u>1,560</u>	[1 Mark]
	108,135	[1/2 Marks]
Carer	<u>(20,000)</u>	[1/2 Marks]
	88,135	[1/2 Marks]
Taxed as follows		
€45,400 + €29,625 x 20%	15,005	[1 Mark]
€1,600 x 25%	400	[1 Mark]
€11,510 x 41%	<u>4,719</u>	[1 Mark]
	20,124	[1 Mark]
Less:		
Married Tax Credit	(3,660)	[1 Mark]
PAYE	(1,830)	[1 Mark]
DIRT	(400)	[1/2 Marks]
DWT	(125)	[1 Mark]
PAYE	<u>(23,000)</u>	[1 Mark]
Tax Refund	8,891	[1/2 Marks]

#### Question 4

	€	
Sales proceeds	600,000	[1 Mark]
Cost 200,000 x 1.049	(209,800)	[1 Mark]
Gain	<u>390,200</u>	[1 Mark]
Exempt gain 390,200 x 62/88	(209,800)	[1 Mark]
Chargeable gain	<u>115,286</u>	[1 Mark]
PPR		
Owned house 88 months	PPR 62 months.	[2 Marks]

	€	
Gift to Ann		
Deemed sales proceeds	12,000	[1 Mark]
Cost 1,000 x 1.356	(1,356)	[1 Mark]
Gain	<u>10,644</u>	[1 Mark]

No retirement relief as under 55 years.		[1 Mark]
Sales Proceeds	800,000	[1 Mark]
Cost 11,250 x 1.637	(18,416)	[1 Mark]
Gain	<u>781,584</u>	[1 Mark]

Gains	907,514	[1 Mark]
Less: Annual exemption	(1,270)	[1 Mark]
	<u>906,244</u>	[1 Mark]

CGT at 25% 226,561 [1 Mark]

Ann Gift 12,000 [1 Mark]

No CAT as under threshold of €43,400. [1 Mark]

**Total Marks 20**

## Question 5

### VAT charge on which input credit is not allowed

No deduction is allowed for VAT on any of the following:

- Provision of food, drink or accommodation supplied to a taxable person, his agents or employees.
- Entertainment expenses
- Purchase or hiring of passenger motor vehicles other than as stock in trade
- Purchase of petrol other than as stock in trade, can however reclaim diesel
- VAT in respect of goods or services used by the taxable persons for the purposes of an exempt activity or for personal use
- VAT for goods and services for which the registered trader does not have a valid VAT invoice.

**Need 5 for all 5 points.**

### Who must register for VAT?

You must register for VAT if you are a taxable person and your annual turnover (i.e. the amount of your receipts excluding VAT) exceeds or is likely to exceed the following annual limits

€75,000 in respect of the supply of goods

€37,500 in respect of the supply of services

You may also be obliged to register for VAT if you receive taxable services from abroad or if you are a foreign trader doing business in the State.

**Need all for all 5 points.**

### Cash Receipts basis of accounting

Can use if:

- persons engaged in the supply of taxable goods or services where at least 90% of sales are to unregistered persons
- persons whose annual turnover is less than €1,000,000

Means you pay VAT to Revenue when you are paid for goods/services.

**Need all for all 5 points.**

### Requirements for valid VAT invoice/Credit Note

A valid VAT invoice/credit note must contain the following:

- Name and address of person issuing the invoice
- The sellers VAT registration number
- Date of issue of invoice
- Date of supply of goods/services
- Full description of goods/services
- Amount charged excluding VAT
- rate (including zero rate) and amount of Vat at each rate
- name and address of customer

**Need 5 for all 5 points.**

A VAT invoice must be provided where the business is transacted with another taxable person. VAT invoice must be issued by 15<sup>th</sup> day of month following the month in which the goods/services are supplied or advance payment received.

All records must be maintained for 6 years.

**Total Marks 20**

## Question 6

### Computation of Tax Adjusted Profits of Trades and Professions

Need to arrive at the tax adjusted Case I or Case II trading profits.

Method:

Net Profit per accounts

Add: Disallowable expenses

Add: Trading income not taken account of in profit and loss account

Less: Expenses not charged in profit and loss accounts which should have been

Less: Capital receipts, exempt receipts and those chargeable under another Schedule or Case

#### General Rules as to allowable and disallowable deductions

- 1) Capital items are disallowed in computing profits for income tax purposes
- 2) Certain revenue items are specifically disallowed

Where expenditure made for “enduring benefit of the trade”, most likely capital.

**Need 5 for all 5 points.**

#### Examples of disallowed expenditure:

- not wholly and exclusively for the purpose of the trade
- rent of houses not used for trade
- depreciation
- loss on sale of fixed assets
- improvements to premises
- drawings
- income tax payments
- covenants and royalties
- gambling losses
- private element of certain expenses
- legal fines
- interest on late payment of tax
- increase in general bad debts
- customer entertainment
- finance lease interest charges
- some lease charges
  - o lease hire charges x  $\frac{\text{cost of car when leased} - \text{relevant limit:€24,000}}{\text{Cost of car when leased}}$

Depends on car CO2 emissions.

**Need 5 for all 5 points.**

### Expenses commonly allowed

- wages paid to tax payers wife where she is bona fide employee
- trade interest
- statutory redundancy
- donations to approved bodies once greater than €250
- repairs
- lease payments
- Goods stolen
- Legal fees re debt collection
- Contributions to staff pensions paid
- Staff entertainment

### **Income tax payment dates and calculations of amounts due.**

#### Tax Returns

Tax Return (Form 11) must be submitted by 31 October following the year of assessment. For example for the tax year 2009, the personal tax return must be submitted by 31 October 2010.

#### Preliminary tax

Preliminary tax is an advance payment of tax. It is due for payment by 31 October in the tax year.

For example preliminary income tax for 2009, is due for payment by 31 October 2009.

This can be based on:

- 90% of final tax payable for 2009
- 100% of total final tax liability of 2008
- 105% of total tax liability of 2007, if paying by instalments.

Balance of tax due for 2009, payable by 31 October 2010.

A sole trader is assessed to income tax under either Schedule D Case I (trade - shopkeeper, manufacturer) or Schedule D Case II (profession or vocation – doctors, accountants, and jockeys).

**Need 5 for all 5 points.**



## **Basis of assessment for commencement**

### Commencement

Year 1: The basis of assessment for year one is the profit from the date the business starts until the following 31 December.

Year 2:

- If only one account is made up to a date within the year of assessment and that account is for a period of twelve months, the assessment will be made on the profits for the twelve months ending on that date.
- If an account is made up to a date which is not for twelve month period or where more than one set of accounts are made up to different dates within the same tax year, then the assessment will be based on the full amount of the profits for the twelve months ending on the latest accounting date ending in the second tax year.
- In any other case, the assessment is based on the full amount of the profits for the actual second tax year, where there is no period of account ending during the second tax year.

Year 3:

Normally the profits of an accounting period of twelve months ending on any date during the third tax year.

The taxpayer has an option in relation to the assessment for the third year. He may claim to reduce the assessment for the third year by the amount by which the assessment raised for the second tax year exceeds the amount of the actual profits of the second year.

**Need 5 for all 5 points.**

**Total Marks 20**